



Farm Transition Planning Business & Business Entities

Frank Friar

Wisconsin Department of Agriculture, Trade and
Consumer Protection

Wisconsin Farm Center



Agenda

- Wisconsin Farm Center Overview
- Farm Business Entities
- Questions and Discussion



Farm Center Services

- Transition Planning and Beginning Farmer Assistance
- Financial Analysis and Planning
- Dairy 30x20
- Grazing, Organics, and Specialty Crop Consulting
- Rural Electric Power Service



Farm Center Services, Cont.

- Herd-based Diagnostics
- Mediation
- Counseling
- Minority Farmer Outreach
- Livestock and Meat Consulting
- Help Line



Farm Business Entity Options

- Sole Proprietorship
- Partnerships (Informal, General, & Limited)
- Corporation (“C” & “S”)
- Limited Liability Company (LLC)



Sole Proprietorship: *Advantages*

- Easy to set up and flexible
- No business partners
- All profits go to the owner
- Few legal or tax limitations to transfer funds
- Income taxation at individual tax rates



Sole Proprietorship: *Disadvantages*

- Personally liable for debts, taxes, and liabilities
- All losses accrue to the owner
- Access to loans is limited to personal credit rating
- Business ends when owner dies or sells assets



Partnerships

Two or more people, or entities, doing business together. There are three main types of partnerships.

- Informal Partnership
- General Partnership
- Limited Partnership



Informal Partnership

- Not a “true” legal entity, but rather two sole proprietors doing business together
- Benefits are the same as sole proprietorship
- Has some additional disadvantages



General Partnership

- Has two or more partners and each of these partners is fully labile for the others
- The partnership ends upon the death of one of it's members



Limited & Limited Liability Partnership

- Requires one partner to hold unlimited liability while the others maintain limited liability
- The partnership ends upon the death of one of its members



Partnerships: *Advantages*

- Easy form
- Income is divided among partners
- Tax is paid at partner level
- Limited liability for some partners
- Relatively easy to dissolve



Partnerships: *Disadvantages*

- Unlimited liability for some partners
- Terminates if a partner dies or declares bankruptcy
- Must have complete trust in partners
- Complicated reporting requirements



Corporations

A legal entity that is separate from it's owners.

- “C” Corporation
- “S” Corporation



Articles of Incorporation

- Articles of incorporation determine the purposes & powers of the corporation
- This document must be approved by the state & becomes the formal charter under which the corporation exists



Bylaws or Operating Agreement

- The shareholders or directors enact corporate bylaws/operating agreement to regulate the every day affairs & establish routine procedures of operation
- No state approval is required of the bylaws



Structure of Corporation

- Shares of stock are issued/sold to the owners of the corporation
- Shareholders own the corporation but are not necessarily the managers
- In a family corporation, one can likely be a shareholder, director & officer



Limited Liability

- Shareholders are typically not liable for corporate debt & have no more risk than what they invested
- However, in many cases a lender will require the shareholders to personally guarantee loans to the corporation



Continuity of Operation

- A corporation exists as long as the shareholders desire it & continues to fulfill the lawful requirements.
- The life of the corporation does not depend upon the lives of the people.



Income Taxation

- Under general rule, a corporation is a tax paying entity.
- It reports its income & deductions & pays tax on its net income.



Ownership Transfer

- Shares of stock provide a convenient way to make lifetime & death transfers.
- A share of stock may be sold, given away, or transferred at death.



C Corporations: *Advantages*

- Limited liability of shareholders
- Business continues after a death
- Easy transfer of ownership



C Corporations: *Disadvantages*

- Additional paperwork to establish corporation
- Double taxation
- Gain is recognized when assets are distributed to shareholders



S Corporations: *Advantages*

- Limited liability of shareholders
- Perpetual existence
- Easy transfer of ownership
- Income taxed only at shareholder level



S Corporations: *Disadvantages*

- More paperwork to establish
- Restrictions on the number & type of shareholders
- Only one class of stock is permitted



Limited Liability Companies

- LLCs are formed by registering with the Dept of Financial Institutions.
- Provides the limited liability advantages of a corporation & the tax advantages of a partnership.
- Can have one or more members.



LLCs

- Property transferred to the LLC is the property of the LLC
- A member's interest in the LLC is personal property
- An LLC with more than one member can be taxed like a partnership or corporation



Limited Liability Companies: *Advantages*

- Taxed like a partnership
- Limited liability for members



Limited Liability Companies: *Disadvantages*

- More paperwork to establish
- Fewer after-tax fringe benefits



Wisconsin Farm Center
Tel: 800-942-2474
FarmCenter@Wisconsin.gov

Wisconsin Department of Agriculture, Trade and Consumer Protection
Division of Agricultural Development
2811 Agriculture Drive | Madison, WI 53718